

## **Urban Settlement Development Authority - 2022**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Urban Settlement Development Authority (“Authority”) for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and Finance Act No. 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Authority as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

#### **1.2 Basis for Qualified Opinion**

My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

#### **1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Authority’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Authority or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Authority’s financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Authority is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Authority.

## 1.4 Audit Scope

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Authority to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Authority, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Authority has complied with applicable written law, or other general or special directions issued by the governing body of the Authority;
- Whether the Authority has performed according to its powers, functions and duties; and
- Whether the resources of the Authority had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## **1.5 Audit Observations on the preparation of Financial Statements**

### **1.5.1 Internal Control over the preparation of financial statements.**

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

### **1.5.2 Non-Compliance with Sri Lanka Public Sector Accounting Standards**

<b>Non-Compliance with the reference to particular Standard</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>(a) <b>Sri Lanka Public Sector Accounting Standards No. 01</b></p> <p>As per the paragraphs No. 45 and 46 of the standard, each material class of similar items shall be presented separately, and aggregated and classified summary data should be presented in the financial statements. However, contrary to this, the Authority had detailed the similar items in the financial statements instead of summarizing them in the financial statements for the year under review.</p>	<p>The accounting package will be updated in the next year, then that items are represented as classes.</p>	<p>Assets and liabilities should be classified and presented in the financial statements as per the standard.</p>
<p>(b) <b>Sri Lanka Public Sector Accounting Standards No. 02</b></p> <p>As per the paragraph No.9 of the standard, Cash and Cash Equivalents are the short-term investment which has a short maturity of three months or less from the date of acquisition. But Rs.258 million amount of fixed deposits which have 03 months maturity period, had not been included in cash and cash equivalents by the Authority.</p> <p>Therefore, the cash and cash equivalents shown in the statement of financial position had been understated by the same amount and the investment value had been overstated by the same amount at the end of the year under review.</p>	<p>The Fixed Deposit value that matures in 03 months or less included under investments will be accounted under the cash and cash equivalents in the future.</p>	<p>The Cash and Cash Equivalents should be identified according to the standard.</p>

(c) **Sri Lanka Public Sector Accounting Standards No. 03**

As per the paragraph No.47 of the standard, an entity shall correct prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by restating the comparative amounts for the prior period presented in which the error occurred. But The relevant adjustment for the Rs. 2.41 million amount of government grants received for the Seethawaka housing project which had been decided to stop according to the board paper No. 05/2015/04 dated 02 October 2015, were made in the year under review without adjusted them to the related year. Therefore, the surplus of the Authority had been overstated by the same amount. Furthermore, Rs. 1.59 million amounts of incentives which were paid related to the previous year had been adjusted in respect to the year under review. Therefore, the surplus of the year under review had been understated by that amount.

Action will be taken to restate the comparative amounts which were presented for that period when correcting the prior period errors in the financial statements. Action will be taken to identify the projects which were stopped by make decision in the relevant years and correct the adjustment of prior years retrospectively.

The arrangements should be made to make prior year adjustments as per the standard.

(d) **Sri Lanka Public Sector Accounting Standards No. 07**

(i) As per the paragraph No.55 of the standard, the revaluation surplus included in net assets/equity in respect of Property, Plant and Equipment should be transferred directly to accumulated surplus or deficit when the assets are derecognized. However, the amount of Rs. 0.74 million of revaluation surplus in relation to the 55 assets removed in previous years had been removed from revaluation reserve account and adjusted to the surplus of the year under review instead of adjusting it to the accumulated surplus account. Therefore, the surplus of the year under review had been understated by the same amount.

Action will be taken to check the revaluation reseserve account and make necessary adjustments.

The relevant revaluation values should be removed when derecognizing the assets as per the standard.

(ii) The 06 houses built under Environmentally Friendly technology (Sudaraka Technology), located in 6 plots out of the 108 plots of land in Anuradhapura TuruIthurugama, which was transferred to the Authority as government grant on 24 April 2019 under grant letter No. 4/7/7422 were assessed as Rs. 5.92 million in the year 2016. But according to the report provided on the site inspection by National Engineering Research and Development Institute on 10 October 2022, It was pointed out that these houses were constructed using

The construction cost of the 06 houses built under Environmentally friendly technology (Sudaraka Technology) in Anuradhapura TuruIthurugama land was Rs. 4.9 million. Construction cost was accounted as per that.

The fair value of assets should be accounted.

poor construction methods and the walls made of clay and cement could not support the roof and thus these houses were not suitable for human habitation. Accordingly, the decrease in the value of these houses should be recognized as impairment, but due to non-recognition, the non-current assets had been overstated by that amount.

However, according to the valuation report submitted by the Government Valuation Department on 18 May 2022, the value of those 06 houses were Rs. 7.55 million and the value had been increased by Rs. 1.62 million as compared to the valuation report submitted in 2016, While giving this assessment, It was observed that these 6 houses were considered the same as other 102 houses which were made of cement and thus it was observed that this assessment is controversial.

Action will be taken to account the value of land related to these 6 houses as per the valuation report in 2022.

Action will be taken to account the value of 102 land plots in Anuradhapura as per the valuation in 2022 year.

(e) **Sri Lanka Public Sector Accounting Standards No. 11**

(i) As per the paragraph No.10, IG 30 and IG 31 of the standard, eventhough the group of non-exchange transactions where the entity may provide some consideration directly in return for the resources received, but that consideration does not approximate the fair value of the resources received. In these cases, the entity determines whether there is a combination of exchange and non-exchange transactions and each component is recognized separately. But on the contrary, the fair value of the Nittambuwa Orchardwatta land with an extent of 9 acres, 03 roods and 21.10 perches was assessed as Rs. 120 million and 9 acres and 20.2 perches were given to the Authority by the Land Reform Commission, and Rs. 60 million had paid by the Authority for that and only paid amount was shown in the financial statements. The Authority had not assessed the value of the transferred land portion and included it in the financial statements or had not made the required disclosures.

The Valuation received for Nittambuwa land area with extent of 9 acres 03 roods 21.10 perches was Rs. 120 Million but the amount of land that has been taken over by the Authority was 9 acres and 20.2 perches by the gazette paper. Accordingly, Actions will be taken to obtain the correct valuation of the land assigned to the Authority and action will be taken to account the income of the non-exchange transaction.

Only the value related to the extent of land owned by the Authority should be accounted.

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| (ii)  | As per the paragraph No.17 of the standard, it should be accounted as per the present obligation, Although the amount of Rs. 1,267.32 million given by the Government for Lunawa Housing Project should be paid back to the Government according to the Cabinet decision No අමුණ/20/1844/306/055 dated 02 December 2020, the Present Obligation was not accounted. Since that the Government Grants were shown under equity and reserves in the statement of financial position, the equity and reserves had been overstated by the same amount.  | A letter has been Forwarded with the recommendation of the Secretary to the Ministry to reconsider the amounts payable to the Treasury, in respect of credit it to the Consolidated Fund.   | Should be acted according to the Cabinet Decision.  |
| (iii) | As per the instructions given on paragraph No.14, 15, 16, 76, and IG 18, 19, 20 and 21 of the standard, Income generated from non exchange transactions should be recognized in the Statement of financial performance. Rs. 2,458.05 million amount of the cumulative balance shown in the financial statements as at 31 December 2022 , from the treasury grants received by the Authority, till the end of the year under review, had not been adjusted to the financial statements as per the standard.<br>Furthermore, although the paragraph 42 of the standard, an asset acquired in a non-exchange transaction should be measured initially at its fair value at the date of acquisition, Land in Moratuwa Lunawa owned by government, was transferred as a free grant to the Authority in 2022 and the project had been completed in the year 2022. The cost of this land had not been included in the calculation of the cost of disposal even though the 356 houses constructed had been disposed on sale basis. Therefore, the accuracy of the calculation on housing cost was problematic. The fair value of this land had not been calculated or adjusted in the financial statements at the end of the year under review. | The value of the fixed assets which were received without recovery will be recognized as income from government grant account. Actions will be taken to include it into the financial statements after assessing the fair value of the Land in Lunawa which was transferred to the Authority in 2022. | Government grant should be fully recognized into the Statement of Financial performance in the relevant year. |
| (iv)  | Contrary to the instructions given on paragraph No.94 and 96 of the standard, Rs. 8.6 million amount of Government Grant had been stated under equity and reserves and Rs. 14 million amount of Differed income had been recognized as well.  | Actions will be taken to recognize assets which was transferred to the Authority as income in future.   | - Do-   |

- (v) As per the paragraph no 106 and 107 of the standard, . an entity shall disclose the amount of revenue from non-exchange transactions during the period either on the face of, or in the notes in the financial statements by showing them separately by major classes and the accounting policies adopted for the recognition of revenue from non-exchange transactions. But those disclosures had not been made. Under the disclosures to be submitted in relation to No. 106, 107 of the standard, actions will be taken to indicate the matters relevant to the Authority under the notes in the future. Should be dealt with the income from non-exchange transactions.
- (f) **Sri Lanka Public Sector Accounting Standards No. 12**
- (i) According to the paragraph No. 14 (a) of the standard, if the ownership of the asset is transferred to the lessee at the end of the lease term, it should be recognized as finance lease. According to that, 22 houses which were disposed to the employees in the Authority on commercial basis as per the long term lease, had not been recognized as finance lease as per the standard, by the Authority. Further, transferred houses had not been recognized as sale during the year since it has completed only 25 per cent of down payment. The relevant accounting policy had not been identified as well. Attention will be given to this matter which has been presented as new audit observations. Finance lease and sales should be identified as per the standard.
- (ii) Contary to this standard, Rs. 20.61 million Amount related to the 04 Housing projects sold by the Authority during the year under review had been recognized as income and therefore the surplus of the year under review had been overstated by same amount. Attention will be given to these matters in future. The relevant sales income should be recognized correctly as per the standard.
- (g) **Sri Lanka Public Sector Accounting Standards No. 13**
- According to the paragraph No. 7 in the standard, Investment property is property (land or a building – or part of a building – or both) held to earn rentals or for capital appreciation, or both. However, Rs. 146.76 million worth of houses and commercial units which were provided on rental basis by the Authority, were not recognized as investment property and they had been included under fixed assets. It is a property owned by the Authority in the name of the Authority, until all housing units in the property are completely disposed. It should be recognized as an investment property if it fulfills the relevant requirement as per the standard.
- (h) **Sri Lanka Public Sector Accounting Standards No. 20**
- According to the paragraph No. 96 of the standard, The depreciable amount of an intangible asset with a finite Only one item of assets is included under the Intangible aseets should

useful life shall be allocated on a systematic basis over its useful life. But no amortization expense had been recognized for the accounting software worth of Rs.500, 000 owned by the Authority during the year under review. Further more according to the paragraph No. 117 in the standard, the relevant disclosures in relation to the intangible assets had not been made in the financial statements.

intangible assets of the Authority and actions will be taken to include the details about it into the account. be recognized as per the standard.

### 1.5.3 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(a) Eventhough the interest receivable on fixed deposits were Rs. 51.48 million as at 31 December 2022, interest receivable amount of Rs. 54.19 million including Rs. 2.71 million of withholding tax was stated in the financial statements. Therefore, the surplus of the year under review had been overstated by Rs. 2.71 million.	Taxes charged on fixed deposits which will be matured in 2023, will be accounted at the time of actual receipt of income.	The income and expenses should be properly accounted on the accrual basis.
(b) The balance of Rs. 15 million in the distress loan provision fund as at 31 December 2022, which is maintained to provide distress loans to employees by allocating funds from the fund of the Authority, had been stated under non current liabilities instead of stated under equity and reserves. Therefore, non-current liabilities had been overstated and equity and reserves had been understated by that amount.	Actions will be taken to show the Disaster Loan Provision Fund under equity and reserves.	The disaster loan fund should be stated under reserves.
(c) According to the information given by the marketing division of the Authority, Rs. 448.1 million was stated as receivable as at 31 December 2022 from the 178 housing units sold on commercial basis through the Lunawa housing project. But according to the financial statements, the value is Rs. 435.5 million. Therefore Rs. 12.56 million of difference was observed.	All the installments collected by the recovery division had not been included. Therefore, there is a difference of Rs. 12.56 million in comparison with the balance of financial statement.	The amount of debt recovery for the year should be accurately stated in the financial statements.
(d) Eventhough the total outstanding loan installment amount of Rs. 3.4 million to be recovered from the year 2016 which was related to the Hambantota housing project	The total arrears related to the Hambantota Housing Project included in the loan stock will be accounted as installments.	The outstanding loan installments should be stated under current assets.



should be shown under the current assets as receivable as at 31 December 2022, it was stated under non current assets. Therefore, current assets of the Authority had been understated by that amount.

#### 1.5.4 Unauthorized Transactions

Description of unauthorized transaction	Management Comment	Recommendation
According to the paragraph 15 of Urban Settlement Development Authority Act No. 36 of 2008, the general welfare and social and cultural development of the community in an urban settlement area and the administration of the affairs for that area should be carried out. But except for the 02 housing projects in Thuduwegoda and Nawalapitiya urban low-income housing projects which were temporarily suspended in the year under review, any physical development activities had not been carried out and Only 05 human development programs had been implemented.	According to the National Budget Circular of Public Expenditure Control, No.BD/CBP/01/01/04-2022 the construction activities were suspended and preliminary work has been done in Wattala (Welisara), Sri Jayawardenepura, Nittambuwa, Kaduwela middle income housing projects by using the internal allocation of the Authority.	Should be acted according to the provisions of the Act.

### 1.6 Accounts Receivable and Payable

#### 1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
(a) The total loan installment amount to be recovered at the end of the year under review in relation to 06 housing projects provided on relocation basis by the Authority were Rs. 112 million and the loan balance to be recovered from a period of 2 - 5 years was Rs. 47.31 million and the loan balance to be recovered over 05 years was Rs. 30.12 million. That value was 42 per cent and 27 per cent from the total loan installment amount respectively.	It has planned to create a strong motivation for recovery throughout the year 2022/2023, through the implementation of the last 03 stages, such as, restructuring of debts of the ten-way recovery process, referral for the letter of demands, and taking legal action.	The debt recovery process should be efficient and updated.

- (b) The total loan installment amount to be recovered at the end of the year under review in relation to 04 housing projects provided on sale basis by the Authority were Rs. 42.5 million and the loan amount to be recovered from a period of 2 - 5 years was Rs. 11.3 million and the loan balance to be recovered over 05 years was Rs. 22.8 million. That value was 27 per cent and 54 per cent from the total loan installment amount respectively.
- It has planned to give attention for collecting outstanding loan installments from the households whom were disposed on non-relocation (sale) basis by restructuring of debt, referrals for letter of demand and taking legal actions in the future.
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- (c) The approval was received by the Cabinet decision No. 4903/20/1844/306/055 dated 22 December 2020, to recover 25 percent of the total value of a house as the down payment to the Authority in disposing of Lunawa housing units and to connect with a government bank and provide credit facilities to the beneficiaries to pay within 25 years for the remaining 75 percent and to recover that 75 percent amount to the Authority within 3 months.
- It was unable to act as per the cabinet decision since the non-completion of the documents and reports to be submitted when applying for a loan under a bank loan facility, the restriction of bank loan facilities due to the financial crisis in the country during that period and the excessive increase in loan interest rates.
- The appropriate arrangements should be made to recover the full amount of the disposed houses.
- However, it had not been able to obtain the sale values from the banks for the 12 houses that were acquired under the basis of bank loan for this housing project as at 31 December 2022, which was assigned to the public ownership on 9 April 2021.

### 1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Urban Settlement Development Authority Act No.36 of 2008			
(i) Introduction to the Act	Even though the Urban Settlement Development Authority had been established to prepare a National Policy related to the development of	The Board of Directors has given instructions regarding that work to be done by a university or an institution that are having expertise in	It is the responsibility of the Authority to formulate a

	<p>urban settlements and to ensure the implementing of such policy, the Authority had failed to prepare such a National policy and implement it even since lapsed of 14 years after the establishment of the Authority.</p>	<p>that subject. Accordingly, although requests were made by the United Nations Development Program (UNDP) to prepare this policy, this effort was failed.</p>	<p>National Policy for Urban Housing Development.</p>
	<p>However, it was observed that the preparation of an urban regeneration policy was included as one of the components of the Support to Colombo Urban Regeneration Project (SURP) implemented by the Line Ministry and a draft was prepared as well.</p>	<p>Therefore, the Authority sent a letter to the Ministry to accomplish this work by the Department of Town and Country Planning of the University of Moratuwa.</p>	
<p>(ii) Section 10 of the Act</p>	<p>The Authority had appointed a consulting committee by April 2017, not exceeding 14 members comprising with a Chairman. However, the functions which are related to the objectives of the Authority such as proposals plans, projects and action plans etc. of the Authority, had not been identified by the Committee up to end of the year under review.</p>	<p>A new advisory board has been appointed under the new management to implement the objectives as well as the future proposals, plans, projects and action plans of the Authority.</p>	<p>Actions should be taken to fulfill the objectives of the act.</p>
<p>(iii) Sub Section of 16 (1) (e)</p>	<p>According to the provision of this paragraph, the service charges collected from the property developers, who invested in low income housing projects, by the Urban Development Authority should be credited to the Urban Settlement Development Authority Fund. However, according to the Cabinet decision No. 10/2951/504/012, dated 14 December 2010, collection of the service charges had been terminated. Thus, the Authority had lost its main source of income. At the time</p>	<p>The committee headed by the Additional Secretary to the Ministry has examined and submitted a report to the Secretary to the Ministry in this regard.</p>	<p>Adhere to the objectives of the Act and the money collected on behalf of the Authority should be collected.</p>

of the suspension of service charges, Rs. 207.33 million service charges which had charged by the Urban Development Authority had not been received to the Urban Settlement Development Authority even at the end of the year under review.

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| (iv) Sub Section of 16 (3)                                     | The initial capital of the Authority should be Rs.5000 million and it should be received by the Authority in installment basis from the consolidated fund, and eventhough 14 years had lapsed no capital had been provided to the Authority up to the end of the year under review.  | The requests had been made continuously to the General Treasury through the Ministry to obtain the initial capital of Rs.5000 million receivable as per the Urban Settlement Developmant Authority Act. | Action should be taken to obtain the capital contribution of the government as required. |
| (b) Section II (b) of the Finance Act No 38 of 1971            | The Authority had been invested Rs.958 million in fixed deposits during the year under review and Rs.1195 million in previous year, on the approval of the Board of Directors without obtaining the approval of the Minister of Finance.   | Requests have been made through the Secretary to the Ministry from the letter No. SMUD/F/01/USDA dated 25 November 2022 to obtain the concurrence of the Minister of Finance.                           | The regulations of the Finance Act should be followed.                                   |
| (c) Public Finance Circular No. 01/2021 dated 16 November 2021 | According to the circular, A corporate plan should be prepared for 5 years and should be submitted to the concerned parties before 15 days before the start of the next year along with the Action Plan and Annual Budget. However, Authority had not been acted accordingly, and action plan had not been prepared according to the format in section (b) of the Guidelines on Corporate Governance for State Owned Enterprises by Authority. However, although the | Instructions had given to formulate the annual budget in accordance with the Public Finance circular No.01/2021.  | Should be acted as per the circular instructions.  |

estimated financial statement, the estimated cash flow statement and the estimated capital expenditure should be included in the the main budget of the year, those facts had not been included in the Annual Budget prepared by the Authority for the year 2022.

## **2. Financial Review**

### **2.1 Financial Result**

The operating result of the year under review amounted to a surplus of Rs. 364.72 million and the corresponding surplus in the preceding year amounted to Rs. 784.62 million. Therefore, deterioration amounting to Rs. 419.9 million of the financial result was observed. Although the interest income and other income increased by Rs.147.72 million in the year under review, the decrease in profit from housing projects by Rs.534.1 million and the increase in personal emoluments by Rs.18.5 million in the year under review compared to the previous year are the main reasons for this deterioration.

### **2.2 Trend Analysis of major Income and Expenditure items**

According to the information included in the financial statements, the following observations were made based on the analysis made relating to the financial result of the year under review and the preceding year.

<b>Year</b>	<b>2022 Rs. Million</b>	<b>2021 Rs. Million</b>
Treasury grants - Human Resource Development	-	26.98
Deferred Income –On Fixed Assets	11.4	3.2
Interest Income	161.8	22.1
Other Income	12.9	4.96
Personal Emoluments	118.9	100.5
Travelling Expenses	1.9	0.4
Surplus	364.2	784.6

- (a) Interest income had been increased by 631 per cent during the year under review as compared to the previous year. This was mainly due to the increase in interest income on fixed deposit by 826 per cent
- (b) During the year under review, 29 per cent of the total revenue of the Authority was generated from treasury grants, and 71 per cent from operational activities.

- (c) Compared to the previous year, the personal emoluments expenses had been increased by 18 per cent. This was mainly due to the 170 per cent increase in staff incentives from Rs.1.75 million to Rs.4.74 million.

### 2.3 Ratio Analysis

In the preceding year the current ratio of the Authority was 2.16:1 and during the year under review it had been increased up to 18.5:1. Increase in sale of houses by 67 per cent and 71 per cent increase of distress loan receivable, which had given for the staff and decrease of 88 per cent in current liabilities, had been mainly attributed for this growth.

## 3. Operational Review

### 3.1 Management Inefficiencies

	<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a)	It was decided to dispose Rs.44.78 million worth of 67 commercial units in Sahaspura and 57 service units which value had not been determined, to the Management Committees on a free grant basis under the Board Paper No. 05/2022/06 dated 16 June 2022 which could have generated rent income by renting out.	The Reel company which started this housing scheme had given the income of the respective business premises entirely to the fund of management corporation and the Urban Settlement Development Authority had only leaglizized the process.	The Authority should earn the rent income from their commercial units.
(b)	Without recovering the 50 per cent of the sale price as per the Cabinet decision No. 403/20/1844/306/055 dated 22 December 2020, The possession of the house No. 1/3/3 which worth Rs.4.74 million, in the Lunawa Housing Scheme, had been handed over by only charging the 25 per cent or Rs.1.185 million from the sale value of the house.	There is an agreement with the Authority that the remaining amount will be paid subject to an annual interest rate of 6.25 per cent within one year from the date of taking possession of the house and a minimum fee of Rs.25,000 per month should be paid for the period from the date of taking possession of the house to the date of final payment, when making the balance payment the total value paid should be deducted and the balance amount should be paid.	Should be acted according to the Cabinet Decision.

### 3.2 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) The Authority had failed to acquire 2.32 hectares of land where 3 completed housing scheme with 512 housing units and an under construction housing scheme were located, from the relevant institutions, by the end of the year under review. As a result, due to the delays in providing deeds of lands to the beneficiaries of the houses that have been built and handed over, it was unable to establish Management Committees in housing schemes and transfer the custody of the houses.	Due to an ongoing legal action, there is a delay in the process of handing over the land to our Authority. Agreement has been made with the respective beneficiaries for a period of 20 to 30 years to make the payments for the houses in the above housing projects. therefore, all payments should be completed to issue the deeds.	Actions should be taken to acquire the lands without delay.
(b) Eventhough the Authority had disposed all the 356 housing units built under the Lunawa housing Project in the previous year on the sale basis, the deeds had not been given to the beneficiaries by the end of the year under review. This was mainly due to the non obtaining the approval from the Urban Development Authority, the Condominium Mangement Authority, the Survey Department, the office of Registrar of Titles and the Moratuwa Municipal Councils.	Approved Building Plan with the approval of a Chartered Engineer, Compliance Certificate, Condominium Management Athority Certificate, the Condominium Plan certified by the Survey Department and approved by the Condominium Management Authority and the assessment numbers for the condominium units which are required for the prepration of the Condomonium Declartion related to the Lunawa Housing Project had not yet been received. Therefore, it was unable to complete the work on the related condominium declaration up to now.	Arrangements should be made to provide the deeds promptly by correlating with the related institutions by completing the related requirments..

### 3.3 Transactions of Contentious Nature

Audit Issue	Management Comment	Recommendation
(a) Contray to the Cabinet Decision No අඹ/20/1844/306/55 dated 22 December 2022, the Authority had obtained the approval of the Board of Directors through Board Paper No.01/2021/15 and it was decided that not to charge the 20 per cent service fee which is charged to the Authority in determining the selling price of the houses, when providing houses to the	It was decided that not to charge the 20 per cent service fee which is added in determining the average selling price of a house based on the request of the employees of the Authority who do not have a permanent house by the Board Paper No.01/2021/15. Also approval was obtained to	Should be acted according to the Cabinet decision and the approval of the Cabinet Ministers should be obtained again for the activities that are diffrent to it.

officers of the Authority. And to implement an easy payment system to charge only the Government assessment value as the selling price of a house and pay that cost over a period of 25 years at a concessional annual interest rate of 2 percent. 22 houses had been given to the officers of the Authority and Rs.18.96 million had been lost to the government due to the violation of cabinet decision at the end of the year under review.

dispose houses to 22 employees at an annual interest rate of 2 per cent for a maximum period of 25 years.

On the basis of the above, all the employees have entered into an agreement with the Authority on the basis of deducting the receivable amount of Rs.90.3 million from the monthly salary of the employees in the next 25 years due to the disposal of houses for the staff of the Authority.

- (b) The possession of 53 housing units worth Rs.62.87 million out of 288 housing units in Angulana housing scheme which was constructed for the fishermen community by the Authority had been given to actors and sportsmen between 26 September 2016 and 12 February 2019, through free transfer papers, without being charging money. After that, according to the Cabinet Decision No. අමප/No/19/2761/122/085 dated 18 September 2019, it had been decided to charge a reasonable price from the beneficiaries, however the Authority had not recovered any amount even by the end of the year under review. Also, the free grant of 32 houses had not been cancelled as per the instructions in the letter of Attorney General dated 4 December 2022.

Although the Cabinet decision No.අමප/No/19/2761/122/085 dated 18 September 2019 had been given regarding the 53 housing units that had been given on the free grant basis, and due to the Corona Pandemic situation in the year 2021 and the fuel crisis that lasted for about 6 months in the year 2022, the duties were carried out very minimally. And signing of these agreements were started as soon as the official activities were started.

Should be acted according to the Cabinet decision and the approval of the Cabinet Ministers should be obtained again for the activities that are different to it.

- (c) According to the instructions given by the Attorney General on 28 October 2021 in relation to the financial fraud of Rs. 47.75 million that occurred during the takeover of the Real Estate Exchange (Private) Company Limited to the Authority, cases should be filed against the concerned persons to recover the loss. But in order to consider whether legal proceedings can be filed, the Line ministry was informed that the responsible persons and loss incurred to the government should be properly calculated according to Finance

According to the request made by the Line Ministry dated 28 September 2022, The Urban Settlement Development Authority has appointed a committee to investigate this matter and the above committee has summoned the previous officers who may be considered responsible for the incident and completed the investigation an its report is scheduled to be issued in the near future.

As per the instruction of the Attorney General, action should be taken immediately to recover the loss incurred to the Government.



Regulation 103 (Chapter II), but the line ministry had not done it even by June 2023.

### 3.4 Human Resources Management

	<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a)	Since the recruitment procedure of the Authority has been prepared based on the old format, it was instructed to update it as per the new format for getting approval by the letter of the Director General of Management Services, No DMS/1523/ (vol-1) dated 22 May 2019. However, that requirement had not been Fulfilled even by April 2023.	In the inquiry made regarding the progress of the Draft forwarded to the Audit and Management Service Department for approval by letter No USDA/ADM/03/71-2021-1 dated 28 October 2022, The Management Service Department informed that the verification will be done and forwarded to the Authority promptly.	Arrangements should be made to obtain the approval of the Management Service Department as soon as possible.
(b)	The approved cadre of the Authority as at 31 December 2022 was 153 and the approved contract cadre was 13 and actual cadre as at that date was 126 and 03 respectively. Accordingly, there were 37 vacancies in the staff and the existence of such vacancies had directly affected the lower performance of the institution.	Forwarded to the Cabinet officers Committee for reviewing the Recruitment Process in the Public Service and to the Department of Management Service with the signature of the Secretary to the Line Ministry.	The approved staff should be review or actions should be taken to fill the necessary vacancies.

## 4. Accountability and Good Governance

### 4.1 Annual Report

	<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a)	According to the financial statements of the Authority, 341 housing units had been sold by the Lunawa Housing Project at the end of the year under review, of which 128 house beneficiaries had been paid the total amount of Rs.646.08 million. However, according to the Draft Annual Report related to the year under review of the Authority, it was stated that Rs.664.08 million had been paid by 140 house beneficiaries.	The Draft Annual report was submitted to the Auditor General before 22 February 2023 and these quantitative values have been changed on 31 December 2022.	The information in the Annual Report should be consistent with the financial statements. And these corrections also had not been made in the Annual Report submitted to the Cabinet on 06 September 2023 by the Secretary to the Ministry.

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|-----|--|---|------|
| (b) | Also, the sale value of the housing units where only 50 per cent of the value of a house has been paid is Rs.912.38 million and the cash receipts related to those housing units is Rs.464.28 million, but according to the Draft Annual Report, those figures are Rs 912.91 million and Rs.460.38 million respectively. | The Draft Annual report was submitted to the Auditor General before 22 February 2023 and these quantitative values have been changed on 31 December 2022.   | -Do- |
| (c) | The number of housing units where only 25 per cent of the value of a house has been paid is 12 and the sale value of those houses is Rs.61.62 million, but according to the Annual Report, the figure is 13 housing units and Rs 66.36 million respectively.   | Instructions have been given to correct these presented figures in the Annual Report according to the figures in the financial statements, and submit the Annual Report to the Parliament with the approval of the Cabinet. | -Do- |

#### 4.2 Corporate Plan

Audit Issue	Management Comment	Recommendation
In order to achieve the objectives of the Authority, the tasks of conducting surveys and studies related to identifying the economic and social status of urban residents and implementing of urban housing loan schemes in nationally, which are to be performed according to the Urban settlement Development Authority Act no.36 of 2008, were not performed or included in the corporate plan.	Under the Social Development Programme 2023-2025, island wide surveys are conducted to identify the economic and social status of urban residents and updated annually. As no treasury allocations were made for the implementation of urban housing loan schemes, it is expected to be included in the upcoming update of the corporate plan based on the feasibility of the proposed program of lending through commercial banks.	The Authority should performed the functions mentioned in the Act and should be included them in the corporate plan.

#### 4.3 Annual Action Plan

Audit Issue	Management Comment	Recommendation
According to the action plan prepared by the Authority in the year 2022, 06 projects were planned to be completed, but any physical progress in 02 projects had not not been achieved at the end of the year under review. Also, only 5 per cent to 16 per cent physical progress had been	The 02 projects of Thuduwegoda and Nawalapitiya were temporarily suspended with the approval of the Board of Directors. From that, the approval of the Board of Directors was obtained to carry out the Thuduwegoda project under the PPP method without incurring any cost to the government. 06 projects implemented by the internal earnings of Authority had been included in the action plan.	Every necessary step should be taken to execute the projects as planned.

achieved in 4 projects while the financial progress was 01 per cent to 69 per cent. Also, 02 projects that were started in the year 2022 and temporarily suspended had not been included in the Action Plan.

04 housing projects of Welisara, Nittambuwa, Jayawardanapura and Kaduwela had achieved physical progress from 2 per cent to 16 per cent and financial progress from 1.28 per cent to 69.19 per cent.

The construction of drainage system of the Chillaw housing project was included in the action plan of the year 2023.

The activities related to the identification of the land owned by the Department of Postal were not carried out in order to reduce the expenses according to the circular of Controlling Public Expenditure.

#### 4.4 Internal Audit

Audit Issue	Management Comment	Recommendation
<p>Only the post of the Internal Auditor had been approved in the approved cadre and post of Audit officer had not been included. Although that matter had been pointed out in the audit reports of the Preceding years, action had not been taken to strengthen the Internal Audit Division even during the year under review. The post of chief Internal Auditor had been further maintained as a Middle Management (MM) level post and only two management assistants had been assigned without recruitment of Audit Officers. Also 04 audit programs out of 18 audit programs included in the approved Intenal Audit Plan for the year under review and performance evaluation of the Authority had been conducted.</p>	<p>The request for creation of the post of Director (Internal Auditor) HM 1-1 has been submitted to the Ministry through the letter dated 04 April 2023 for forwarding to the Department of Management Services.</p>	<p>By strengthening the Internal Audit Division, the work of the Authority can be carried out in a transparent manner.</p>

#### 4.5 Budgetary Control

Audit Issue	Management Comment	Recommendation
<p>Budgeting was not used as an effective control mechanism by the organization and significant variances ranging from 1 per cent to 232 per cent were observed between the budgeted expenditure and actual expenditure. Further, the Authority had been spent Rs.1, 974,419 for 6 expenditure items that had not been allocated in the budget during the year under review.</p>	<p>Attention has been given to use the budget as an effective control mechanism.</p>	<p>Action should be taken to maintain the budget as an effective control mechanism.</p>